

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Horana Urban Council including the financial statements for the year ended 31 December 2024 comprising the Statement of Assets and Liabilities as at 31 December 2024, Comprehensive Income Statement, Statement of changes in net assets/ equity, Cash Flow Statement for the year then ended and notes to the financial statements including material accounting policy information was carried out under my direction in pursuance of provisions in Article 154 (1) of the constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with provisions in Sub- Section 10 (1) of the National Audit Act No 19 of 2018, Sub-Section 181 (1) of the Urban Council Ordinance (Chapter 255). My comments and observations which I consider should be report to parliament appear in this report.

In my opinion, except for the effects of the matters described in paragraph 1.6 of this report, the accompanying financial statements give a true and fair view of the financial position of the Horana Urban Council as at 31 December 2024, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards for Local Authorities.

1.2 Basis for Qualified Opinion

My opinion is qualified on the matters described in paragraph 1.6 of this report.

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

1.3 Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Public Sector Accounting Standards for Local Authorities, and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Those charged with governance are responsible for overseeing the Urban Council's financial reporting process.

As per Section 16(1) of the National Audit Act No. 19 of 2018, the Urban Council is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements.

1.4 Audit Scope (Responsibility of the Auditor for the audit of Financial Statements)

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercised professional judgment and maintain professional skepticism throughout the audit. I also,

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of its internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

The scope of the audit also extended to examine as far as possible and as far as necessary the following;

- Whether the organization, systems, procedures, books, records and other documents have been properly and adequately designed from the point of view of the presentation of information to enable a continuous evaluation of the activities of the Urban Council, and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Urban Council has complied with applicable written law, or other general or special directions issued by the governing body of the Urban Council.
- Whether it has performed according to its powers, functions and duties and
- Whether the resources of the Urban council had been procured and economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.5 Report on Other Legal Requirements

The National Audit Act No. 19 of 2018 contains special provisions regarding the following requirements.

- (a) Financial Statements of the Urban Council as per the requirement mentioned in Section 6 (1) (d) (iii) of the National audit Act No. 19 of 2018 corresponded with the Financial Statements of the previous year.
- (b) In accordance with the requirement referred to in Section 6 (1) (d) (iv) of the National Audit Act No. 19 of 2018, recommendations made by me during the previous year are included in the submitted financial statements.

1.6 Audit observations regarding the preparation of financial statements

1.6.1 Non-compliance with Sri Lanka Public Sector Accounting Standard for Local Authorities

	Non-compliance with reference to relevant standard	Comment of the Sabha	Recommendation
(a)	According to paragraph 3.32 of Chapter 3 of the standard, when preparing the Cash Flow Statement, the reconciliation of the surplus to the net cash flow from operating activities had not been carried out accurately. Although the deficit should have been Rs. 25,856,975, it had been shown as Rs. 24,311,643. Similarly, the depreciation value should have been Rs. 61,787,428, but it had been recorded as Rs. 60,242,097. Furthermore, Rs.7,133,944 should have been adjusted as fixed deposit interest but Rs.4,332,992 and Rs.592,346 had been adjusted as prior year adjustments without any evidence.	The adjustments will be made from the final accounts of the year 2025 and that changes in accounting policies and prior period errors have been shown as adjustments for prior years.	Financial statements should be prepared in compliance with the Public Sector Accounting Standards for Local Authorities.
(b)	According to paragraph 3.31 of Chapter 3 of the standard, when calculating the cash flow from operating activities in the cash flow statement, the increase in other current liabilities was Rs. 107,531 had been shown as Rs. 119,982, under the adjustment of working capital during the year under review, the change in the investment balance amounting to Rs. 19,362,358 related to non-current assets	An amount of Rs. 119,928 has been reconciled as an increase in current liabilities, and a sum of Rs. 19,362,358 has been reconciled under the increase/decrease in other current assets in the Cash Flow Statement	Financial statements should be prepared in compliance with the Public Sector Accounting Standards for Local Authorities.

had been incorrectly shown as a cash outflow.

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| (c) | According to paragraph 3.29 of Chapter 3 of the standard, when calculating the cash flow from investing activities in the Cash Flow Statement, the acquisition of property, plant, and equipment, which should have been Rs. 14,693,072, had been shown as Rs. 18,489,571. Furthermore, the interest income from fixed deposits amounting to Rs. 1,165,823 received during the year under review had been recorded as Rs. 1,152,686. | Rs. 18,489,571 has been shown under the purchase of property, plant and equipment and 14,693,072 indicated in the audit query could not be verified from the accounts as at 31 December 2024. The interest on fixed deposits will be corrected from the closing account of the year 2025. | Financial statements should be prepared in compliance with the Public Sector Accounting Standards for Local Authorities. |
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1.6.2 Accounting Deficiencies

	Audit Observation	Comment of the sabha	Recommendation
(a)	The understatement of the debtors account by Rs. 325,704 in the previous year, the double crediting of the accumulated fund by Rs. 297,334, and the balance of the office equipment depreciation provision of Rs. 719,071 in the ledger as Rs. 299,668 had not been corrected in the year under review.	It will be corrected from the final account of the year 2025.	Accounts should be prepared correctly.
(b)	Although the rates billing for the year under review was Rs. 18,049,597, the financial statements stated it as Rs. 17,980,377, which resulted in a decrease of the rates billed income by Rs. 69,220. The rates income received for the year 2025, which was Rs. 193,784, was debited from the assessment arrears account and the previously received income account was credited, resulting in an increase of Rs. 193,784 in the financial statements at the end of the year under review.	It will be corrected from the final account of the year 2025.	Accounts should be prepared correctly.
(c)	A discount of Rs. 153,078 received on the purchase of library books during the year under review had not been shown as income in the Comprehensive Income Statement. Further, depreciation of Rs. 1,545,331 calculated for library books had been debited to the accumulated fund, resulting in the accumulated fund balance being overstated by that amount.	It will be corrected from the final account of the year 2025.	Accounts should be prepared correctly.

(d)	The entertainment tax income amounting to Rs. 932,263 relating to the year under review had been understated by Rs. 177,775 as it had been shown as Rs. 754,488 in the financial statements.	It will be corrected from the final account of the year 2025.	The accounts should be prepared correctly
(e)	The value of furniture and equipment was understated during the year under review, due to the purchase of furniture and equipment worth Rs. 50,000 had not been debited to the furniture and equipment account.	-Do-	-Do-
(f)	Although the depreciation should have been calculated according to the depreciation percentages of each of the capital grants received from the year 2020 to the year 2023 and that value should have been recognized in the revenue of the year under review, without doing so, Rs. 3,568,225, which is equivalent to 10 percent of the capital grant value of Rs. 35,682,250 under the physical plan as of 01 of January 2024, had been recognized in the revenue of the year under review.	It will be corrected from the final account of the year 2025.	-Do-
(g)	Although fixed deposit interest of Rs. 1,846,899 should have been received at the end of the year under review, it had been recorded in the accounts as Rs. 1,059,818, resulting in an understatement of fixed deposit interest income by Rs. 787,081.	Interest on fixed assets receivable at the end of the year under review amounted to Rs. 1,846,899 has been correctly shown in the trial balance.	-Do-

1.6.3 Unreconciled Control Accounts or Records

Audit Observation	Comment of the sabha	Recommendation
A discrepancy of Rs. 4,277,669 was observed between the total of the balances of 02 accounting subjects shown in the financial statements and the total of the balances shown in the relevant schedules/ledger accounts.	Steps will be taken to correct this when preparing the 2025 financial statements.	Steps should be taken to find out the reasons for the differences and correct them.

1.6.4 Lack of written evidence for audit.

Audit Observation	Comment of the sabha	Recommendation
It was not possible to satisfactorily examine the schedules and balance confirmations in relation to 04 accounting subjects amounted to Rs. 24,842,504.	The schedules and balance confirmations will be submitted correctly in the year 2025.	The schedules and balance confirmations should be submitted for audit.

2. Financial Review

2.1 Financial Result

According to the financial statements presented, the expenditure exceeding the income of the sabha for the year ended 31 December 2024 was Rs. 25,856,975 and correspondingly income exceeding the expenditure of the previous year was Rs.24,814,535.

2.2 Revenue Administration

2.2.1 Estimated Revenue, Revenue Billed, Revenue Collected and Arrears of Revenue

According to the information presented by the secretary, estimated revenue, billed revenue, collected revenue and arrears related to the year under review and the previous year are as follows.

Source of Revenue	2024				2023			
	Estimated Revenue	Revenue billed	Revenue Collected	Arrears as at 31 December	Estimated Revenue	Revenue billed	Revenue Collected	Arrears as at 31 December
	(Rs)	(Rs)	(Rs)	(Rs)	(Rs)	(Rs)	(Rs)	(Rs)
(i) Rates and Taxes	26,530,977	24,632,348	21,275,807	6,816,030	23,440,788	21,296,813	21,880,547	9,457,132
(ii) Rent	27,128,382	19,576,313	14,259,720	9,312,260	15,417,482	12,575,201	10,775,233	6,396,172
(iii) License Fees	1,704,500	479,000	479,000	-	3,404,500	500,000	523,000	-
(iv) Other Revenue	2,116,000	2,866,650	1,625,975	1,240,675	-	-	-	-
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	57,479,859	47,554,311	37,640,502	17,368,965	42,262,770	34,372,014	33,178,780	15,853,304
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2.2.2 Performance in Revenue Collection

Observations regarding the revenue collection performance of the Sabha are given below.

	Audit Observation	Comment of the Sabha	Recommendation
(a)	Rates		
(i)	The rate arrears at the beginning of the year under review was Rs.7,648,041 and out of that Rs.4,207,167 or 44 percent had not been collected during the year and Rs.3,285,321 or 18 percent of the Rs.17,980,377 billed for the year under review had not been collected during the year.	Steps will be taken to recover the arrears of revenue.	Arrears of income should be recovered expeditiously.

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| (ii) | According to the rate time analysis, the rate arrears between years 01 and 03 was Rs. 2,791,749, the rate arrears between years 03 and 05 was Rs. 2,272,708, the rate arrears between years 05 and 10 was Rs. 939,982 and the arrears above 10 years was Rs. 486,124. | Of the rates arrears between years 01 and 03 Rs. 1,113,748, of the arrears rates between years 03 and 05 Rs. 414,231, of the rates arrears between years 05 and 10 Rs. 86,931 and of the arrears above 10 years Rs. 53,383 have been recovered. | The arrears should be recovered expeditiously. |
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(b) Rent

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| (i) | The arrears of shop rent at the beginning of the year under review were Rs. 2,974,315 and out of that Rs. 604,388 or 20 percent had not been collected during the year and out of the Rs. 13,656,431 shop rent billed for the year under review, Rs. 2,037,927 or 15 percent had not been collected during the year. | Steps would be taken to recover the arrears. | -Do- |
| (ii) | The arrears of shop rent for more than 3 months from 72 different shop lessees and 01 function hall amounted to Rs. 3,214,049 and action had not been taken in accordance with the agreements with regard to the lessees who had defaulted on shop rent. | The money is being collected by sending arrears notices in accordance with the agreements. | -Do- |
| (iii) | No amount had been recovered during the year from the arrears of rent of Rs. 3,391,279 at the beginning of the year under review and no amount had been recovered from the annual billing | The Urban Development Authority and the Ministry of Housing have been informed to pay the relevant rent. | -Do- |

amounted to Rs. 955,882 during the year.

(c) Stamp duties

The stamp duty that should have been Stamp duties of Rs. -Do-
received from the Chief Secretary of 28,300,075 had been
the Provincial Council and other received as at 31 May
authorities as at 31 December 2024 2025.
amounted to Rs. 74,377,704.

3. Operational Review

3.1 Uneconomic transaction

Audit Observation	Comment of the sabha	Recommendation
Although the sabha had been spent Rs. 55,435 on printing 5,000 garbage collection schedules including dates of garbage collection from houses and commercial places during the year under review, 1,240 schedules were remained without being distributed as at September 2024, resulting in Rs. 13,748 being uneconomically spent.	There was some delay in making requests for printing as there was not enough time to prepare the new schedule and a trial run on the feasibility of implementing the above plan in practice was conducted during the first two weeks of January.	The measures taken for garbage collection should be carried out as scheduled.

3.2 Management inefficiency

Audit Observation	Comment of the sabha	Recommendation
(a) According to Section 118 of the Municipal Council Ordinance, the sabha had not maintained gully bowser service to dispose of the sewerage accumulated in the sabha area.	The gully bowser service is provided by the Horana Pradeshiya Sabha.	Action should be taken as per the Act.
(b) The loss and damage register had not been updated after the year 2017.	Action will be taken to update it.	The register should be kept up to date.
(c) Although 06 software systems had been purchased from a private company on 22 December 2019 for a sum of Rs. 4,010,000, a cost-	This payment was made since the services were already being provided by the relevant	A feasibility study should be conducted before purchasing the system.

benefit analysis and feasibility institutions regarding the issues study had not been conducted that arose.
before purchasing this system.
Furthermore, Rs. 315,989 had been paid as service fees, various problems had arisen in implementing the system and it had not been possible to achieve the desired objectives.

3.3 Operational inefficiency

	Audit Observation	Comment of the sabha	Recommendation
(a)	Although the new assessment given for 32 stalls in the new public market premises for 02 years from 01 January 2023 was approved by the General Assembly and the shop rent was revised monthly from 01 April 2023, the shop rent had been collected from only 12 shop lessees as per the new assessment. The Council had lost an income of Rs. 2,115,750 due to non-collection of shop rent from 20 shop lessees.	They were informed that the remaining arrears would be calculated and collected, and that steps have already been taken to collect rent for the remaining 20 shops as per the new assessment.	The arrears should be collected promptly.
(b)	Although the assessed value given for the 24 stalls in the new market premises (paved sheds) for 2 years from 01 January 2023 had been collected from 01 April 2023 without entering into an agreement, the down payment due to the assessment report had been collected from only 04 lessees. Due to non-collection of down payment	Steps will be taken to collect the money as per the agreement.	-Do-

from 19 stalls leased without entering into an agreement, the revenue lost for the year under review was Rs. 13,440,000 and due to stall number 13 remaining without lease, the revenue lost by the end of the year under review was Rs. 733,500.

- (c) Although the control of the Horana Inn was transferred to the Urban Development Authority by Gazette Notification No. 105/3 dated 09 September 1980, the sabha was unable to take legal action to recover the arrears of the Inn since the year 2021 due to the lack of a formal agreement regarding the collection of monthly fees.
- The Urban Development Authority and the Ministry of Housing have been informed to pay the relevant rent.
- The arrears should be recovered promptly.

3.4 Idle or underutilized property, plant and equipment

Audit Observation	Comment of the sabha	Recommendation
The tractor gully bowser and compactor remained idle since 2015.	Estimates for repairs have been obtained and referred to the Mechanical Engineer.	The assets should be repaired and put into use.

3.5 Assets Management

Audit Observation	Comment of the sabha	Recommendation
(a) The ownership of 41 lands included in the sabhal's land register had not been acquired to the sabha.	The relevant documents to transfer 04 lands/buildings for which survey work has been completed sent to the Land Title Settlement Department. Accordingly, steps will be	The action should be taken to acquire the lands owned by the sabha.

taken to transfer the remaining
lands/buildings to the sabha.

- (b) The fire engine which has been idle since 2002 had not been repaired at the end of the year under review and had not been registered and insured in the name of the sabha. Steps will also be taken to register and insure . The vehicle should be registered in the name of the sabha, insurance should be obtained, repaired and put into use.

3.6 Human Resource Management

	Audit Observation	Comment of the Sabha	Recommendation
(a)	There were 02 senior level posts, 01 tertiary level post, 08 secondary level posts and 24 primary level posts were vacant as at the end of the year under review. Out of the primary level shortage of employees, 14 were health workers	The Chief Secretary has been informed to fill the senior level and tertiary level vacancies. The filling of secondary and primary level vacancies has been suspended for the time being in accordance with government policies	Vacant employees should be recruited.
(b)	According to the Public Administration Circulars No. 25/2014, 29/2019 and Cabinet Paper No. 24/0756/605/006-06, 56 posts had been approved which not included in the approved carder and it was observed that 56 people were employed in the said posts by the end of the year under review.	The posts were established based on the policy decisions of the previous governments from time to time.	approved staff should be revised.
(c)	It was observed that 05 secondary level employees were appointed in excess of the approved carder by the end of the year under review and 08 development officers who were not included in the approved carder were employed.	The posts were established based on the policy decisions of the previous governments from time to time.	approved staff should be revised.
(d)	Rs. 5,000 due from one deceased officer and a balance of Rs. 307,658 from six officers who left the service had not been recovered.	Action would be taken in the future to recover the due balance.	Employee loans should be recovered expeditiously.

3.7 Vehicle Utilization

	Audit Observation	Comment of the Sabha	Recommendation
(a)	Although instructions had been sought from the Commissioner of Motor Transport to convert the compactor vehicle which has been idle since the year 2015 into a gully bowser and repair it, the vehicle had not been repaired even at the end of the year under review.	action would be taken to carry out the repair work in the future.	Repair the assets and put them into use.
(b)	A hand tractor, which had been recommended for disposal in the year 2017 had not been disposed of even at the end of the year under review	New valuation report has been referred to the Valuation Department.	Action should be taken to dispose of the identified assets.

4. Accountability and Good Governance

4.1 Submission of Financial Statements

	Audit Observation	Comment of the Sabha	Recommendation
	In accordance with Section 16(2) of the National Audit Act No. 19 of 2018, the annual financial statements of the local government institution are required to be submitted to the Auditor General on or before 28 February of the following financial year in accordance with Rule No. 08 on Accounting Matters Relating to the Financial Administration of the Western Provincial Urban Councils, as enacted by the Extraordinary Gazette No. 2155/7 dated 24 December 2019. However, the financial statements for the year under review were submitted on 29 April 2025.	The financial statements were corrected and resubmitted on 2025.04.29 due to computer errors in the financial statements submitted on 2025/02/28.	Financial statements should be submitted on the due date as per the Act.

4.2 Internal Audit

Audit Observation	Comment of the Sabha	Recommendation
Although it was planned to conduct internal audits monthly, quarterly and every 6 months under 21 sectors according to the internal audit plan for the year 2024, only 16 internal audit reports covering only 07 sectors had been issued as at 31 December in the year under review, and adequate internal audits had not been conducted covering the remaining 14 sectors.	The subject officer was informed to conduct an internal audit covering all sectors from the year 2025.	Action should be taken as per the internal audit plan.

4.3 Budgetary Control

Audit Observation	Comment of the Sabha	Recommendation
(a) The estimated expenditure for 09 recurrent expenditure items was Rs.758,726 and no amount had been spent in the year under review.	Out of the 48 expenditure items, 09 expenditure items were not actually spent.	The budget should be used as a control instrument.
(b) The expenditure of 15 expenditure items with an estimated expenditure of Rs.16,268,382 had been less than 50 percent.	Due to the non-functioning of the sabha in the year 2024, less than 50 percent of the provisions allocated for the members have been spent.	The budget should be used as a control instrument

4.4 Sustainable Development Objectives

Audit Observation	Comment of the Sabha	Recommendation
A program of provide nutritional bags to low-income pregnant mothers/lactating mothers under sustainable development had been planned to be implemented under a provision of Rs. 80,000, but the program had not been implemented in the year under review.	Since the approval for the project was received on 16/01/2025, it is not possible to implement the said project.	Action should be taken as per the sustainable development plan.